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How Bad a Deal Is Weirton Steel?

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Abstract
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■ *Corey Rosen & Staughton Lynd*

Dear *Labor Research Review*;

Your issue on worker ownership was excellent. It should be a very useful document for many union people. I would like to raise two points, however.

First, I would like to reiterate the point made by some of the authors that employee ownership plans are only rarely used to save failing firms (2% of the cases). In a study we just completed of 37 more typical ESOP companies, we found that between 1981 and 1984, the average annual stock price increase for these firms was 17%. Combined with the average annual ESOP company contribution of an amount equal to 8% of pay, this means that an employee making $20,000 per year in these firms would accumulate at least $37,000 over ten years.

Moreover, while it is true that most ESOP firms do not provide for much employee control, virtually no non-ESOP firms provide for any employee control (except for worker cooperatives, of which there are very few in firms of any size). We estimate that of the 800-1200 majority employee-owned companies, about half provide employees with full voting rights on all issues, and that the average size of these firms is over 600 employees. Companies as large as Science Applications (6,000 employees), Parsons Corporation (7,000) and several others are majority employee-owned and provide full voting rights. What device other than ESOPs has accomplished this?

Second, on a more particular point, I cannot agree with Staughton Lynd that workers at Weirton will have to choose between ownership and control in five years. At that time, workers will vote, on a one-person, one-vote basis, whether to have Weirton go public and have early distribution of employee shares. Lynd argues employees will vote to get the stock and give up whatever control they are supposed to get at that time (namely, the ability to elect the board). His assumptions are that most workers will elect to take the stock and sell it on the public market. There is little empirical evidence one way or another that this is what workers will do. If Weirton is successful, they may well want to hold their shares. That, in fact, appears to be what happens in most public companies when workers voluntarily buy stock—they hold it for a very long term. Weirton workers will have the added incentive of being able to control the company. Moreover, at least some stock will remain in the ESOP. In a public offering, remaining ownership is likely to be widely dispersed, so even a minority block of stock could exercise effective control, as is the case in most public firms.

In any event, what would Lynd have the company do? Not let the workers choose? Would this not violate the very democratic principles Lynd is advocating? It may well be that Weirton will need to go public in order to raise the capital needed to preserve jobs. If that is the case, who should make that decision if not the workers? And what alternative would there be to going public to raising these funds? Taking on more debt and letting bankers have more control? Getting money from the government?

Weirton is not a perfect example of workplace democracy. I cannot think of any such examples. Given the constraints under which the company was bought, however, it is considerably more democratic than many people expected. It is vastly more democratic than any other steel company. While it is important to critique the efforts of employee ownership in terms of what it might be in a perfect world, it is also important to understand it in terms of how much progress has been made compared to what goes on in the real world. By those standards, Weirton is a remarkable achievement. For the last five quarters, it has also been the most profitable U.S. steel company. To Weirton's workers, I suspect, that is really the bottom line.

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Staughton Lynd Replies:

It is a good thing that steelworkers at Weirton were able to preserve their jobs as a result of the creation of Weirton Steel. That, however, does not make Weirton Steel an experiment in workers' control. It simply means that by taking a 20% wage cut workers at Weirton were able to keep working, at least for the time being.

Weirton Steel is not "vastly more democratic than any other steel company." It is less democratic than the average steel company because its union is, and has been for the 50 years of its existence, a Micky Mouse company union. It is less democratic than other, recent ESOPs because shares are allocated in proportion to an individual's compensation, rather than equally. And it will in all likelihood become even less democratic in 1988 when, if the designers of the ESOP have their way, Weirton will "go public" and its stock will be sold like the stock of GM or IBM.

Let me say a little more about each of these three points.

1. The Independent Steelworkers Union at Weirton Steel is a company union.

In 1933, when steelworkers began the efforts at self-organization which led to the United Steelworkers of America, steelworkers at Weirton were full participants. In the fall of that year 12,000 steelworkers at Weirton went on strike demanding recognition of their newly-formed lodges of the Amalgamated Association of Iron, Steel and Tin Workers. The leaders of the Weirton strike, Billy Long and Mel Moore, then joined with other presidents of new Amalgamated lodges to launch a nationwide effort to unionize steel. Early in March 1935, a meeting was held in Weirton, attended by rank-and-file steelworkers from Illinois, Indiana, Ohio, Pennsylvania, and West Virginia. Clarence Irwin of Youngstown told the delegates, "The kind of union we are going to have will not depend on courts, but on organization and the picket line." On May 29, 1935, Mel Moore from Weirton and Clarence Irwin from Youngstown tried to turn a walkout at Canton, Ohio, into a national steel strike.

While steelworkers at all other major steel companies went on to form the United Steelworkers of America, steelworkers at Weirton formed what is currently the country's largest company-run labor organization.

The Independent Steelworkers Union has *never* been on strike. Instead, it has scabbed on its brothers and sisters in the rest of the industry during every national steel strike. The ISU executive committee consists of workers elected from among the union stewards, who work full-time for the union and do no work in the mill, but are *paid their entire salaries by the company*. It was this executive committee that represented Weirton workers on the labor-management Joint Study Committee (JSC) that planned the buyout at Weirton Steel.

The proof of the pudding, when it comes to unions, is in the collective bargaining agreements they negotiate. The collective bargaining agreement negotiated by the ISU and accepted by Weirton workers as part of the buyout is a six-year contract, forbidding wage increases and cost-of-living adjustments for the duration of the contract, and prohibiting strikes. The no-strike provision is not the ordinary no-strike clause. As part of the agreement for acquisition of Weirton's assets from National Steel, National agreed to guarantee payment in full of Rule 65 or 70/80 pensions resulting from the permanent shutdown of Weirton Steel within the first 5 years of the new company's existence if, and only if, certain conditions were satisfied. These conditions include the condition that "there must not have occurred any 'Substantial Job Action,' which is defined in [the pension plan] to mean any strike, concerted refusal to work or lockout involving Weirton employees whereby 20% or more of the persons making up Weirton's total scheduled workforce refuses to perform their jobs for any reason for seven consecutive days (or a total of 12 days in any 12 month period). . . ." Thus, if you strike at this "worker-owned" company, you not only risk discharge *but also the loss of your pension*.

2. The Weirton Steel ESOP is less democratic than other recent ESOPs.

According to the Disclosure Document in which the JSC presented the buyout plan for approval, "The principal function of the ESOP is to provide a mechanism. . . for the acquisition of the assets of the Division from National." This ESOP is not intended to give workers control of the mill, nor does it do so.

My article in *Workers as Owners* told how the Wall Street consultants who advised the JSC in planning the buyout at first told all Weirton employees that stock in the Weirton ESOP would be allocated equally because that was "fairest and best," and then, in a memo to JSC members only, substituted allocation in proportion to a worker's pay.

This is a less democratic arrangement than in other recent ESOPs. At Rath Packing Company each participant purchased ten shares of Rath stock per week in lieu of $20 in pay. The board of trustees was elected democratically by all participants on a one-vote-per-person, not a one-vote-per-share, basis. Before each stockholders' meeting, the members of the ESOP met to vote on all issues that would be voted on by the shareholders. The trustees were bound to vote all the ESOP shares as instructed by the majority of those voting at the membership meeting.

Similarly, at the Hyatt-Clark plant in New Jersey, the union obtained a one-vote-per-person distribution of voting rights within the ESOP.

The diffeence between management by one-person-one-vote, and management by one-share-one-vote, is not some technical, secondary issue. It is the critical and essential difference between democratic worker buyouts, and worker buyouts intended to raise money from workers, rather than give them control. The principle of one-person-one-vote can be expressed either in a cooperative or in an ESOP. Unless that principle is followed, one knows from the outset that money, not people, will talk loudest.

3. In all likelihood Weirton Steel will become even less democratic when it "goes public" in 1988.

The Weirton Steel buyout scheme contains a complicated transition from a first 5-year period to the period thereafter. The principal features with respect to control of the company are as follows.

During the first 5 years:

a. Stock will be allocated to the accounts of individual workers in proportion to their compensation.

b. Employees will not be able to vote for the members of the Board of Directors. New members of the Board will be chosen by the 8 "independent" directors.

c. As to "routine matters" with regard to which corporations ordinarily require only a favorable vote by a majority of those voting, *the ESOP trustee* will vote the shares in the ESOP on a one-*person*-one-vote basis after requesting voting instructions from ESOP participants.

d. Decisions of a fundamental nature, such as approval of a merger or consolidation, sale of substantially all the company's assets, or liquidation, require the affirmative vote of at least two-thirds the outstanding shares of Weirton common stock, and as to these matters the ESOP trustee will vote the shares in the ESOP on a one-*share*-one-vote basis after requesting voting instructions from ESOP participants.

e. There will be no distribution of ESOP stock to individual employees.

After the first 5 years, the Board of Directors becomes electable by the stockholders, and the ESOP is permitted to distribute common stock that has been allocated to the accounts of individual employees. All voting after the first 5 years will be on the basis of one-share-one-vote, not one-person-one vote. This is true both of shares remaining in the ESOP trust, which the trustee will vote after requesting instructions, and shares that have been distributed.

At this transition point, employees will be asked to vote on a one-person-one-vote basis as to whether Weirton Steel should "go public" so that its stock would be sold like the stock of any other corporation. This choice was characterized as follows by the JSC's Wall Street consultants in a memorandum dated July 5, 1983: "This is not an easy choice. It would determine the company's future ownership and direction."

I continue to believe that this is a cruel choice, cynically structured by the consultants to ensure that Weirton will "go public." Workers will be able to obtain early distribution of their shares, and thus the possibility of exchanging their shares for cash, only by agreeing to a public sale of stock that would diminish the percentage of stock held by workers. At the very moment when they will first have the possibility of some real power, by electing members of the Board of Directors, they will be induced to compromise that power by a decision to "go public." Even if every worker receiving stock were to retain it, rather than sell it, it would still be the case that, first, workers would have less voting power than management personnel who are paid more and therefore receive more stock, and second, that to the extent shares were purchased by the public, the workers' potential power would be diluted.

The experience of Vermont Asbestos Group (VAG) suggests that workers would not retain their stock if there was a possibility of sale, especially if Weirton Steel was doing well and the value of its stock was high. At VAG, workers initially agreed to keep at least 51% of the stock in their own hands. But when shares originally purchased for $50 came to be worth $2,000 and more, workers with an annual income of $9-10,000 found the prospects tempting. As a result, a local businessman bought a significant number of their shares and now controls the company.

But shouldn't Weirton workers be free to decide to "go public," whatever the consequences? I think democracy is something more than the opportunity to vote in periodic plebiscites between alternatives contrived by others. When they voted on the buyout, Weirton workers had to vote on a 20% wage cut without ever seeing the data on which that recommendation was based. In 1988 they will be asked to vote on "going public" without having a chance to choose both more income *and* control.

But might not Weirton Steel need to sell stock in order to raise the capital needed to preserve jobs? It may, but should that be the case, it would be perfectly possible to sell stock *and* preserve workers' control, if that was what the company really wanted. One way to do this would be by selling preferred stock without voting rights, leaving all the voting common stock in the hands of Weirton workers. Another way to do it would be, as was proposed in Youngstown, to sell voting common stock to the public but amend the Articles to give workers a veto over certain kinds of decisions crucial to them, such as closing all or part of the mill. My belief is that the corporate executives who are a majority of the Weirton Board of Directors do not *want* to preserve workers' control They want to do away with it as rapidly as possible, and convert Weirton into a typical corporation managed in the typical way. ■

Editor's Note: Staughton Lynd's reply included footnotes and other documentation which *LRR* has cut in the interest of space. Readers who want this information can obtain a copy of the original in its entirety by writing *Labor Research Review*, 3411 W. Diversey, Chicago 60647.